

FDIC State Profile

Summer 2005

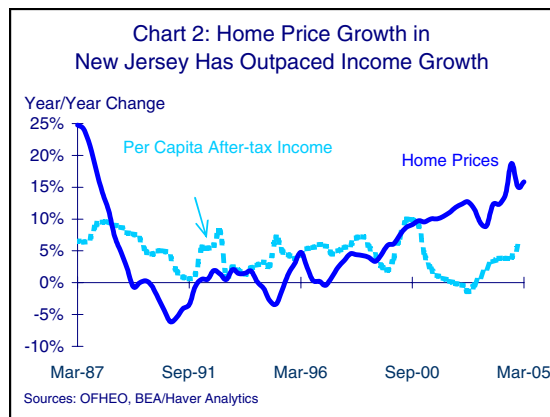
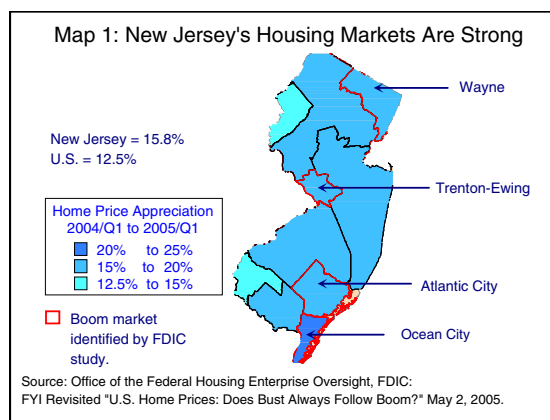
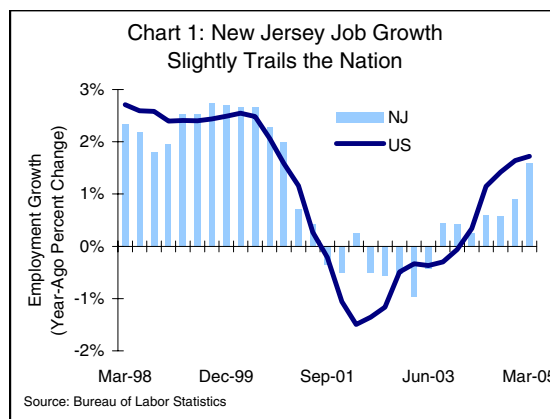
New Jersey

New Jersey's employment growth has shown signs of improvement.

- New Jersey's employment picture strengthened as job growth approximated the U.S. rate (See Chart 1). New Jersey's first quarter 2005 job growth rate ranked 29th highest in the nation compared with 39th in the prior quarter.
- Job growth rates were strong in **Camden** and **Vineland**. In Camden, most of the growth came in professional and business services. Camden also recorded slight job growth in manufacturing. In Vineland, gains were in retail and local government.
- **Newark** and **Atlantic City** recorded job losses in first quarter 2005. Newark's losses reflect continued softness in its telecommunications sector. Atlantic City's casino hotels have shed jobs throughout 2004 and in first quarter 2005. Many casinos are increasing the proportion of floor space devoted to slot machines, and some have switched to digital slot machines which require neither tokens nor cashiers.
- New Jersey's manufacturing sector has been losing jobs since mid-2000. Recently, job contraction was most significant in the printing, food, and apparel sectors. While the rate of job losses in the state's telecom sector has eased, consolidation among telecommunication companies, including Verizon's purchase of MCI and SBC's purchase of AT&T, has contributed to the loss of telecommunication jobs in the state.

Home price appreciation is well above the U.S. average and exceeds personal income growth.

- New Jersey continues to experience strong home price appreciation. At approximately 16 percent, New Jersey had 9th highest statewide appreciation rate in the nation during the first quarter 2005.¹
- A recent study by the FDIC identified 55 "boom" housing markets in the nation that included Atlantic City, Ocean



¹Office of Federal Housing Enterprise Oversight.

City, Trenton and Wayne (See Map 1).² Strong demand near major cities and for vacation homes on the Jersey shore has contributed to increasing home prices. In Ocean City, vacation homes constitute 48 percent of the market. According to a recent study, Cape May is among the top ten most desirable places in the country to buy a second home.³

- New Jersey's house price appreciation exceeded personal income growth by almost three times at year-end 2004 (See Chart 2). House price appreciation in excess of income growth may constrain housing affordability, particularly for first-time home buyers and borrowers with marginal finances.

Strong home price appreciation has contributed to the increased use of adjustable-rate mortgages (ARMs) in the state.

- Although long-term mortgage rates are near historic lows, the use of ARMs has significantly increased among borrowers in New Jersey (See Chart 3). Some ARMs offer lower initial monthly payments than fixed-rate mortgages thereby enabling consumers to purchase homes that they otherwise might not be able to afford. Should interest rates rise, the repayment ability of some ARM holders could be strained as their loan rates reprice up.
- During 2004, interest-only (IO) mortgages, which defer principal payments for a specified period, represented about 20 percent of securitized mortgage loans originated in New Jersey.⁴ The increased use of innovative mortgage products may suggest that homebuyers are stretching to keep pace with increasing home prices. Interest-only mortgages may expose homebuyers to greater repayment risk when the loan re-prices or principal payments begin.

The state's FDIC-insured institutions reported slightly lower profitability.

- The median return on assets among the state's FDIC-insured institutions declined slightly in first quarter 2005 compared with the same quarter one year ago. Net interest margin (NIM) was stable although funding costs rose for the fourth consecutive quarter, reflecting the rise in short-term interest rates and competitive pressures on bank deposit pricing. Non-interest income continued to decline moderately.
- Approximately 40 percent of New Jersey's insured institutions (almost four times the national level) focus

on residential lending and have benefited from strong housing markets, recording 23 percent growth in residential loans in the past year.⁵ However, residential lender NIMs, which typically are influenced by the spread between the long- and short-term rates, may moderate further as the yield curve has narrowed to its flattest level in four years.⁶ Increased popularity of ARMs, however, may help boost loan yields in a rising interest rate environment and temper NIM compression.

New Jersey's credit quality continued to outperform the nation's.

- Credit quality among New Jersey's banks remained strong as the median loan delinquency ratio was almost one-half the national ratio (See Chart 4). In addition, loan charge-offs declined slightly from already very low year-ago levels. Delinquency ratios on mortgage and home equity loans remain low, similar to national trends. The ability of borrowers to refinance at low interest rates and an improving employment picture has contributed to favorable credit quality.

Chart 3: In 2004, ARM's Increased in New Jersey Despite Low Rates on Fixed-Rate Mortgages

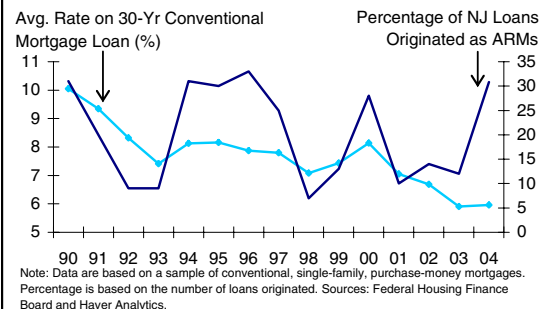
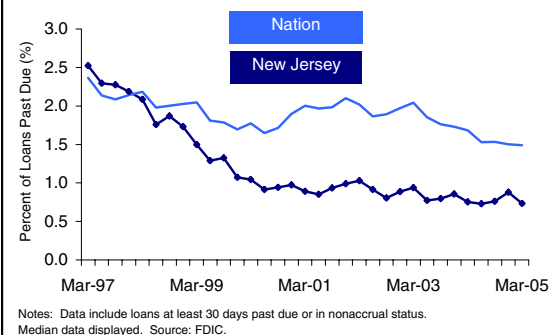


Chart 4: New Jersey's Credit Quality Has Outperformed the Nation's in Recent Years



²Cynthia Angell and Norman Williams, FDIC FYI Revisited "U.S. Home Prices: Does Bust Always Follow Boom?" May 2, 2005. www.fdic.gov/bank/analytical/fyi/2005/050205fyi.html. A boom market is defined as one in which inflation-adjusted home prices rose by at least 30 percent during the 2001-2004 period.

³Sarah Max, "Second Homes Now Mainstream," CNN/Money, March 1, 2005.

⁴Peter Coy, "A Growing Tide of Risky Mortgages," Business Week, May 18, 2005.

⁵"Residential lenders" are defined as insured institutions that hold at least 50 percent of assets in one-to-four family mortgage loans and mortgage-backed securities.

⁶The yield curve is defined as the difference between the monthly average rate on 10-year and 3-month U.S. Treasury securities.

New Jersey at a Glance

ECONOMIC INDICATORS (Change from year ago quarter, unless noted)

Employment Growth Rates	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.6%	0.2%	-1.0%	0.3%	0.7%
Manufacturing (8%)	-2.0%	-4.1%	-5.4%	-9.5%	-1.6%
Other (non-manufacturing) Goods-Producing (4%)	2.9%	3.0%	-4.4%	6.7%	3.3%
Private Service-Producing (72%)	1.8%	0.4%	-0.6%	0.8%	0.6%
Government (16%)	2.0%	1.5%	0.8%	3.1%	2.1%
Unemployment Rate (% of labor force)	4.2	5.3	6.0	5.5	3.6

Other Indicators	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Personal Income	N/A	4.6%	0.5%	1.1%	5.2%
Single-Family Home Permits	1.5%	7.1%	-8.3%	6.3%	-11.2%
Multifamily Building Permits	8.9%	95.9%	7.1%	-13.3%	-38.5%
Existing Home Sales	0.5%	0.5%	-1.4%	20.9%	-7.0%
Home Price Index	15.8%	12.3%	11.5%	11.0%	9.6%
Bankruptcy Filings per 1000 people (quarterly level)	1.18	1.30	1.25	1.21	1.28

BANKING TRENDS

General Information	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Institutions (#)	139	144	148	152	153
Total Assets (in millions)	169,610	155,428	141,498	123,810	113,160
New Institutions (# < 3 years)	4	6	14	23	29
Subchapter S Institutions	4	4	3	3	1

Asset Quality	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.73	0.72	0.93	1.03	0.88
ALLL/Total Loans (median %)	1.01	1.02	1.05	1.00	0.96
ALLL/Noncurrent Loans (median multiple)	2.40	2.98	2.21	2.01	2.05
Net Loan Losses / Total Loans (median %)	0.00	0.01	0.01	0.01	0.01

Capital / Earnings	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Tier 1 Leverage (median %)	9.56	9.25	9.13	9.98	10.31
Return on Assets (median %)	0.80	0.82	0.79	0.79	0.75
Pretax Return on Assets (median %)	1.19	1.21	1.18	1.17	1.12
Net Interest Margin (median %)	3.82	3.81	3.86	3.79	3.73
Yield on Earning Assets (median %)	6.22	6.19	6.33	6.62	6.83
Cost of Funding Earning Assets (median %)	2.49	2.42	2.56	2.76	3.09
Provisions to Avg. Assets (median %)	0.07	0.08	0.07	0.08	0.08
Noninterest Income to Avg. Assets (median %)	0.33	0.35	0.38	0.38	0.39
Overhead to Avg. Assets (median %)	2.75	2.83	2.82	2.81	2.76

Liquidity / Sensitivity	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Loans to Assets (median %)	60.1	57.1	56.3	58.9	57.2
Noncore Funding to Assets (median %)	17.0	16.2	15.0	14.4	14.3
Long-term Assets to Assets (median %, call filers)	25.8	27.8	25.3	25.8	26.3
Brokered Deposits (number of institutions)	28	23	19	17	11
Brokered Deposits to Assets (median % for those above)	2.8	3.3	4.7	6.5	4.5

Loan Concentrations (median % of Tier 1 Capital)	Q1-05	Q1-04	Q1-03	Q1-02	Q1-01
Commercial and Industrial	24.4	27.6	31.7	24.3	19.2
Commercial Real Estate	209.8	171.9	175.4	154.8	118.1
Construction & Development	22.1	15.8	14.0	13.5	8.3
Multifamily Residential Real Estate	6.9	6.8	6.1	4.6	4.7
Nonresidential Real Estate	139.6	125.5	126.6	99.9	85.7
Residential Real Estate	247.3	242.9	259.9	266.8	277.5
Consumer	3.4	4.2	6.0	6.7	9.2
Agriculture	0.0	0.0	0.0	0.0	0.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits (\$ millions)	Asset Distribution	Institutions
New York-Northern New Jersey-Long Island, NY-NJ-PA	236	713,546	< \$250 million	62 (44.6%)
Trenton-Ewing, NJ	25	8,847	\$250 million to \$1 billion	49 (35.3%)
Atlantic City, NJ	17	3,656	\$1 billion to \$10 billion	23 (16.5%)
Ocean City, NJ	13	2,361	> \$10 billion	5 (3.6%)
Vineland-Millville-Bridgeton, NJ	10	1,745		